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SUBJECT: VIETNAM ECONOMIC HIGHLIGHTS: FUEL PRICE HIKES TEMPER GOOD
NEWS, SOE BANK GROWTH FROZEN

REF: A) HANOI 846 (Gas Price Increase Fuels Inflation, Unhappiness);
B) HANOI 830 (Car Sales Take Ride on GVN Tax Rollercoaster); C)
HANOI 739 (Vietnam to Resume Rice Exports in July)

11. (U) This cable is part of an ongoing series on developing
economic stories in Vietnam.

VN INDEX AND INFLATION IMPROVE BEFORE FUEL PRICE INCREASES

12. (U) Although Vietnam's inflation declined and the stock market
went up during July, the fuel price hike announced on July 21 (REF
A) is expected to hamper progress on those fronts. Consumer prices
rose 1.1 percent in July, the slowest rate since October 2007. The
fuel price hike, however, will likely drive inflation up by as much
as 3 percent during August, according to international investment
firms, bringing Vietnam's inflation, already at 27 percent year on
year, up to as high as 30 percent or more. The VN Index, meanwhile,
after gaining on 18 of the 20 trading days preceding the fuel hike
announcement, slumped 9 percent the day after. In a move to dampen
the effects of the fuel price increase, the GVN banned price
increases for electricity, coal, water, and bus transportation for
the rest of 2008.

BUOYED BOND MARKET

13. (U) July's more positive trade and inflation numbers, higher
foreign investment, and stock market gains helped buoy Vietnam's
bond market, as yields fell by 185 basis points the last week of
July. The Vietnamese bond market also saw notable activity on
August 8, when the Government of Vietnam (GVN) auctioned \$33.5
million of a planned \$59.7 million of bonds. Proceeds from the
bonds will fund major infrastructure projects such as roads,
bridges, and ports.

GVN ENCOURAGES RICE EXPORTS

14. (U) The GVN has expanded its rice export target for the year from
4.5 to 4.6 million tons as farmers were unable to sell their bumper
harvest domestically. On June 18, the GVN capped rice exports for
the 3rd Quarter of 2008 at 1 million tons (REF C) and on July 21
announced a first ever export tax on rice, but Vietnamese farmers
have accumulated stockpiles amidst disappointing sales. Though
export enterprises have signed contracts to export 3.6 million tons
of rice by the end of September, Vietnam had only exported 2.8
million tons by the end of July. In response, Prime Minister Dung
has asked government ministries and food corporations to buy more
rice from farmers, urging them to make sure that farmers receive a

profit of 40 percent or more. He also asked rice export companies to accelerate their shipments and asked the State Bank of Vietnam not to apply export taxes to rice exports selling for less than \$800 per ton.

STATE BANK AIMS TO SLOW SOE BANKING ACTIVITIES

15. (U) On August 8, the State Bank of Vietnam (SBV) temporarily halted the establishment of new joint stock commercial banks while the SBV works to revise their establishment criteria. The SBV will also stop processing all "in-principle" approvals that are currently pending. The action appears to be directed at large state-owned enterprises intent on setting up their own banks. The SBV confirms that this licensing freeze applies only to domestic banks but will not reveal when the suspension will be lifted or when the revised criteria will be released. From January to July 2008, the SBV granted "in-principle" approvals for the establishment of 10 new joint stock commercial banks and granted operational licenses to two of those banks. In addition, the GVN announced on July 29 new requirements for foreign banks and financial groups, stipulating that they must now have at least \$10 billion in assets before they can set up in Vietnam. The prior regulations, released in 2002, only required the submission of financial statements during the permit application process.

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